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**SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.**

**FINANCIAL REPORT**

**DECEMBER 31, 2005**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11 / 15 / 06

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.  
LAKE CHARLES, LOUISIANA

December 31, 2005

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# McELROY, QUIRK & BURCH

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Sowela Technical Institute Foundation, Ltd.  
Lake Charles, Louisiana

We have audited the accompanying statement of financial position of Sowela Technical Institute Foundation, Ltd. (a nonprofit organization) as of December 31, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sowela Technical Institute Foundation, Ltd. as of December 31, 2005, and the changes in its net assets, its functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2006, on our consideration of Sowela Technical Institute Foundation, Ltd.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Ms Elroy Quirk & Burch*

Lake Charles, Louisiana  
September 18, 2006

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF FINANCIAL POSITION  
December 31, 2005

ASSETS

Current assets:

Cash and cash equivalents	\$ 327,594
Investments	74,593
Pledges receivable, current - net of uncollectible pledges of \$8,000	29,625
Interest receivable	<u>1,172</u>
Total current assets	<u>432,984</u>

Noncurrent assets:

Investments - restricted	11,432
Pledges receivable - restricted	19,550
Pledges receivable, noncurrent	<u>72,425</u>
Total noncurrent assets	<u>103,405</u>

Total assets \$ 536,391

LIABILITIES AND NET ASSETS

Liabilities \$ -

Net assets

Fund balance:

Unrestricted	505,409
Temporarily restricted	6,982
Permanently restricted	<u>24,000</u>
Total net assets	<u>536,391</u>

Total liabilities and net assets \$ 536,391

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Combined Total</u>
Revenues, gains and other support:				
Contributions received in current period	\$ 191,114	\$ 1,000	\$ 4,000	\$ 196,114
Contributions received in prior periods (released from restriction)	2,400	(2,400)	-	-
Auction cash donations Received	28,587	-	-	28,587
Interest income	1,886	2,882	-	4,768
Miscellaneous income	7,888	-	-	7,888
Total revenues, gains and other support	<u>231,875</u>	<u>1,482</u>	<u>4,000</u>	<u>237,357</u>
Functional expenses:				
Program services	25,753	-	-	25,753
Supporting services	4,571	-	-	4,571
Total functional expenses	<u>30,324</u>	<u>-</u>	<u>-</u>	<u>30,324</u>
Increase in net assets	201,551	1,482	4,000	207,033
Net assets at beginning of year	<u>303,858</u>	<u>5,500</u>	<u>20,000</u>	<u>329,358</u>
Net assets at end of year	<u>\$ 505,409</u>	<u>\$ 6,982</u>	<u>\$ 24,000</u>	<u>\$ 536,391</u>

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2005

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Expenses:			
Scholarships	\$ 2,400	\$ -	\$ 2,400
Fund raising expense	17,053	-	17,053
Uncollectible pledge expense	6,300	-	6,300
Legal and professional	-	3,505	3,505
Postage	-	111	111
Print and reproduction	-	457	457
Supplies	-	341	341
Miscellaneous	-	157	157
Total expenses	<u>\$ 25,753</u>	<u>\$ 4,571</u>	<u>\$ 30,324</u>

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

STATEMENT OF CASH FLOWS  
Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Cash donations received	\$ 188,724
Auction cash donations received	28,587
Interest receivable	4,768
Miscellaneous cash received	7,888
Payments of scholarships	(2,400)
Payment for fund raising	(17,053)
Uncollectible pledges	(6,300)
Cash paid for supplies and services	<u>(4,571)</u>
Cash provided by operating activities	199,643

CASH FLOWS FROM INVESTMENT ACTIVITIES

Interest reinvested	<u>(539)</u>
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Net increase in cash 199,104

Cash and cash equivalents:

Beginning of year 128,490

End of year \$ 327,594

Reconciliation of changes in net assets to net  
cash provided by operating activities:

Increase in net assets	\$ 207,033
Adjustments to reconcile increase in net assets:	
(Increase) in pledges receivable	(6,900)
(Increase) in interest receivable	<u>(490)</u>

Net cash provided by operating activities \$ 199,643

The accompanying notes are an integral part of these statements.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 1. Organization and Purpose

Sowela Technical Institute Foundation, Ltd. (Foundation) was organized on October 21, 1991, and is affiliated with Sowela Technical College. The Foundation is a nonprofit organization incorporated under the laws of the State of Louisiana for the purpose of raising funds to support programs and activities designed to advance, promote, or otherwise benefit Sowela Technical College. The Foundation is supported primarily through contributions from the community of Southwest Louisiana.

The Foundation is exempt from federal and state income taxes as a charitable organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, contributions to the Organization are qualified as charitable donations.

Note 2. Summary of Significant Accounting Policies

Basis of accounting:

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows. As permitted by the statement, the Foundation does not use fund accounting.

Accounting estimates:

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and cash equivalents:

The Foundation considers all liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents at December 31, 2005 consisted of a money market account totaling \$327,594.

Investments:

Investments, consisting of certificates of deposit, are stated at cost, which approximates market value.

Restricted investments:

These investments consist of certificates of deposit restricted for various purposes as detailed in Note 5.

Promises to give/pledges:

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met. Pledges receivable are net of any uncollectible pledges.

Capital assets:

Acquisitions of property and equipment in excess of \$500 are capitalized. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulated how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation:

Depreciation of property and equipment is provided for over the useful life of each asset based on the straight line method of recording depreciation expense. The estimated useful lives of such assets are summarized below:

Automobiles

3 years

Revenue recognition:

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Donor imposed restrictions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support, revenue and expenses and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited. All indirect costs have been allocated to the supporting services functional category.

Note 3. Cash and Cash Equivalents

The total cash held by the Foundation at December 31, 2005 includes \$186,372 in monies that are not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the referenced financial institution is not of particular concern at this time.

Note 4. Investments

Endowed donations and excess funds are invested in certificate of deposits through local depository banks, which are members of the Federal Reserve System. As of December 31, 2005, the Foundation's certificate of deposits totaling \$86,025 are entirely covered by FDIC insurance.

The following schedule summarizes the investment return in the statement of activities for the year ended December 31, 2005. All investment return is classified as restricted.

Interest income	\$ <u>2,882</u>
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Note 5. Pledges Receivable

Included in pledges receivable are the following unconditional promises to give:

	2005 <u>Fund Raisers</u>
Undesignated	\$ 108,350
Designated (see Note 6)	<u>19,550</u>
Gross unconditional pledges	127,900
Less allowance for uncollectibles	<u>6,300</u>
Total unconditional pledges	\$ <u>121,600</u>
Amounts due in:	
Less than one year	\$ 46,275
One to five years	<u>75,325</u>
Total pledges due	\$ <u>121,600</u>

Individual pledges not received within one year are considered by management to be uncollectible.

Note 6. Restricted Assets

Restricted assets described in Note 2 as of December 31, 2005, are as follows:

	<u>Investments</u>	<u>Pledges Receivable</u>	<u>Total</u>
Scholarship funds	\$ 4,082	\$ 2,900	\$ 6,982
Endowed funds	<u>7,350</u>	<u>16,650</u>	<u>24,000</u>
Total restricted assets	<u>\$ 11,432</u>	<u>\$ 19,550</u>	<u>\$ 30,982</u>

Note 7. Capital Assets

A summary of capital assets is as follows:

Automobile	\$ 1,000
Less accumulated depreciation	<u>1,000</u>
Net capital assets	<u>\$ -</u>

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose restrictions:	
Scholarships	\$ 6,982

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows for the year ended December 31, 2005:

ERA Scholarships	\$ 2,400
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Note 9. Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes as of December 31, 2005:

Scholarship endowment fund	\$ 24,000
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Note 10. Affiliation Agreement

The purpose of the Foundation is to receive, hold, invest, and administer property and to make expenditures to support programs and activities designed to advance, promote, or otherwise benefit Sowela Technical College (College). Because of the close association of the Foundation with the College, an affiliation agreement was entered into by both parties on May 25, 2000.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Sowela Technical Institute Foundation, Ltd.  
Lake Charles, Louisiana

We have audited the financial statements of Sowela Technical Institute Foundation, Ltd. (a nonprofit organization) as of and for the year ended December 31, 2005, and have issued our report thereon dated September 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Sowela Technical Institute Foundation, Ltd.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sowela Technical Institute Foundation, Ltd.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sowela Technical Institute Foundation, Ltd.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-01 and 2005-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Ms Elroy Quirk & Burch*

Lake Charles, Louisiana  
September 18, 2006

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2005

We have audited the financial statements of Sowela Technical Institute Foundation, Ltd. as of and for the year ended December 31, 2005, and have issued our report thereon dated September 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2005 resulted in an unqualified opinion.

Section I - Summary of Auditor's Results

Report on Internal Control and Compliance Material to the Financial Statements

Internal control

Material weaknesses ☐ Yes ☒ No

Other conditions ☒ Yes ☐ No

Compliance

Compliance material to financial statements ☐ Yes ☒ No

(continued on next page)

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2005  
(Continued)

Section II - Financial Statement Findings

Internal Control:

2005-01

Criteria: Effective internal control requires adequate segregation of duties among client personnel.

Condition: Because of the entity's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.

Effect: Without proper segregation of duties, errors within the financial records or fraud could go undetected.

Recommendation: To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.

Response: Management has responded that it does not believe that it is cost effective to employ adequate personnel to achieve an adequate level of segregation of responsibilities. Management has implemented supervision and review procedures such as review and approval of supporting documents related to expenditures and periodic review of bank reconciliations.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2005

(Continued)

**2005-02 Scholarship Approval and Disbursement**

Criteria:	All approved scholarships and those awarded should be well documented.
Condition:	Documentation of scholarships approved and awarded to deserving students of Sowela Technical College could be approved.
Effect:	The Foundation is at a risk of loss if awarded scholarships are not documented appropriately. The application, approval and disbursement processes should be fully documented to insure that the Foundation funds are only utilized for purposes of the Foundation.
Recommendation:	A formal policy for scholarship approval and disbursement should be developed and implemented to allow for detailed documentation of all scholarships awarded.
Response:	Management agrees with the findings. Our policy regarding scholarships will be strengthened and stressed to all involved in the scholarship process. If compliance is not achieved through these steps the policy and procedures will be made more restrictive to ensure complete documentation and timely reimbursement.

SOWELA TECHNICAL INSTITUTE FOUNDATION, LTD.

SCHEDULE OF PRIOR YEAR MANAGEMENT COMMENTS AND SUGGESTIONS  
Year Ended December 31, 2005

**2004-01 Internal Control**

Condition: Because of the entity's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.

Recommendation: To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.

Response: See current year reportable condition 2005-01.

**2004-02 Scholarship Approval and Disbursement**

Condition: Documentation of scholarships approved and awarded to deserving students of Sowela Technical College could be approved.

Recommendation: A formal policy for scholarship approval and disbursement should be developed and implemented to allow for detailed documentation of all scholarships awarded.

Response: See current year reportable condition 2005-02.